

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EA-12 AID-05 CIAE-00 COME-00 EB-08
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TO SECSTATE WASHDC 1086
INFO AMEMBASSY BELGRADE
/AMEMBASSY BERLIN 185
AMEMBASSY BUCHAREST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
AMEMBASSY BONN
AMCONSUL MUNICH
USMISSION USNATO

UNCLAS SECTION 1 OF 2 BUDAPEST 1312

E.O. 11652: N/A
TAGS: EEWT, ETRD, HU, ETRN
SUBJECT: HUNGARY'S 1977 FOREIGN TRADE

1. SUMMARY: HUNGARIAN IMPORTS AND EXPORTS EACH INCREASED
SOME 16 PERCENT IN 1977 COMPARED TO 1976. EXPORT GROWTH
EXCEEDED IMPORT GROWTH IN RUBLE-DENOMINATED TRADE, RESULTING
IN AN IMPROVED TRADE BALANCE, BUT THE OPPOSITE SITUATION
PREVAILED IN HARD-CURRENCY TRADE. RESULTING IN A HARD-

CURRENCY DEFICIT OF \$567.2 MILLION. THIS TELEGRAM ANALYZES
PUBLISHED TRADE FIGURES AND REPORTS A LENGTHY CRITIQUE
OF THE 1977 TRADE RESULTS BY FOREIGN TRADE MINISTER JOZSEF
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BIRO, WHO ATTRIBUTED HUNGARY'S DEFICITS TO CONTINUALLY
DETERIORATING TERMS OF TRADE, WEAK WESTERN DEMAND,
DEFICIENCIES IN THE QUALITY AND FLEXIBILITY OF HUNGARIAN
OUTPUT, AND INADEQUACIES IN THE TRANSPORT SYSTEMS OF
HUNGARY'S CEMA PARTNERS, AMONG OTHER PROBLEMS. END SUMMARY.

2. HUNGARY'S FOREIGN TRADE IN 1977 EXCEEDED 500 BILLION

FORINTS, A 16 PERCENT INCREASE OVER 1976. THE TOTAL TRADE DEFICIT REACHED 28.4 BILLION FORINTS, UP FROM 23.5 BILLION IN 1976 (INCLUDING FOREIGN EXCHANGE COSTS OF TRANSPORTATION). BROKEN DOWN, THE RUBLE DEFICIT WAS 4.8 BILLION FORINTS OR 129.5 MILLION TRANSFERABLE RUBLES, DOWN FROM 247.4 MILLION RUBLES IN 1976, WHILE THE HARD CURRENCY DEFICIT WAS 23.6 BILLION FORINTS OR 567.2 MILLION DOLLARS, UP FROM 346.8 MILLION DOLLARS. (COMMENT: THE FORINT-DOLLAR EXCHANGE RATE WAS CHANGED SEVERAL TIMES DURING 1977; THE IMPLIED AVERAGE COMMERCIAL EXCHANGE RATE AQSED IN 1977 HUNGARIAN STATISTICS IS U.S. \$1 EQUALS 41.6 FORINTS.) RUBLE DENOMINATED EXPORTS ROSE 18.6 PERCENT COMPARED TO AN INCREASE OF ONLY 13.5 PERCENT HQIN IMPORTS, CAUSING BIRO TO CONCLUDE THAT "OUR TASKS REGARDING RUBLE-ACCOUNTING TRADE HAVE PRACTICALLY BEEN ACCOMPLISHED." HARD CURRENCY EXPORTS, HOWEVER, ONLY INCREASED 14.4 PERCENT COMPARED TO AN 18.6 PERCENT INCREASE IN IMPORTS.

3. DISTRIBUTION OF TRADE. A PERCENTAGE BREAKDOWN OF HUNGARY'S FOREIGN TRADE IS:

	IMPORTS	EXPORTS
CEMA COUNTRIES	50.5	55.5
OTHER SOCIALIST	2.6	5.4
DEVELOPED CAPITALIST	37.3	29.9
LESS DEVELOPED COUNTRIES	9.6	9.2

(CALCULATED FROM TRADE TABLE PUBLISHED IN VILAGGAZDASAG, UNCLASSIFIED

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3/7/78. OTHER SOCIALIST INCLUDES YUGOSLAVIA, THE PRC, NORTH KOREA AND VIETNAM.)

THIS DISTRIBUTION SHOWS LITTLE CHANGE FROM 1976; THE IMPORT SHARE OF THE CEMA COUNTRIES DECLINED SLIGHTLY. THE USSR CONTINUES TO ACCOUNT FOR ALMOST 30 PERCENT OF TOTAL FOREIGN TRADE, BUT THE FRG BECAME HUNGARY'S SECOND LARGEST TRADING PARTNER WITH A TRADE TURNOVER OF 51 BILLION FORINTS COMPARED TO 44 MILLION FOR THE GDR. IN DISCUSSING GROWTH OF SOVIET TRADE, BIRO COMMENTED THAT "SPECIAL MENTION MUST BE MADE OF THE TRADE DONE AGAINST PAYMENT IN CONVERTIBLE CURRENCIES. IN 1977 THE VALUE OF THIS KIND OF TRADE WAS OVER 330 MILLION DOLLARS." HUNGARY HAD A ONE BILLION FORINT DEFICIT IN TRADE WITH THE USSR, AND A SMALLER DEFICIT WITH BULGARIA; SURPLUSES WITH ALL OTHER CEMA COUNTRIES (NOTABLY A 2.6 BILLION FORINT SURPLUS WITH CZECHOSLOVAKIA) GAVE HUNGARY A TWO BILLION FORINT OVERALL SURPLUS WITH ITS CEMA PARTNERS. COMMENT: AS NOTED IN PARAGRAPH 2, HUNGARY REPORTED A RUBLE DEFICIT, IMPLYING A HARD-CURRENCY SURPLUS OF AS MUCH AS \$100-150 MILLION IN INTRA-CEMA TRADE. HUNGARIAN OFFICIALS HAVE CONFIRMED TO THE EMBASSY THAT HUNGARY ENJOYS A SUBSTANTIAL HARD CURRENCY SURPLUS IN THIS TRADE; THE EXACT AMOUNT CANNOT

BE DERIVED FROM THESE STATISTICS, AS THE DIFFERENT
TABLES ARE NOT FULLY COMPATIBLE (E.G. THE COUNTRY STATISTICS
DO NOT INCLUDE TRANSPORT COSTS). THIS ALSO MEANS THAT THE
OVERALL HARD CURRENCY DEFICIT UNDERSTATES HUNGARY'S
DEFICIT WITH THE NON-SOCIALIST WORLD. END COMMENT.

4. IN DISCUSSING THE TRADE RESULTS, BIRO EMPHASIZED THE
CONTINUING DETERIORATION IN HUNGARY'S TERMS OF TRADE AS
A CAUSE OF THE DEFICIT WITH THE WEST. IMPORT PRICES FROM
THE WEST INCREASED AN AVERAGE 8.2 PERCENT IN 1977, WHILE
EXPORT PRICES INCREASED ONLY 3.8 PERCENT. THE IMPORT
PRICE RISE WAS LED BY A 32 PERCENT INCREASE IN FOOD-
STUFFS (WITH COFFEE, COCOA, AND COTTON PRICES INCREASING
50 PERCENT OR MORE). THE 1978 FORECAST IS FOR A FURTHER
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2. PERCENT DETERIORATION IN NON-RUBLE TERMS OF TRADE. TO
IMPROVE THIS SITUATION, ENTERPRISES ARE URGED TO IMPROVE
THEIR PRICING POLICIES AS WELL AS IMPROVING THE QUALITY
MIX OF THEIR EXPORTS. AS REGARDS INTRABPCEMA TRADE, THE
REAL INCREASE IN TURNOVER IS ESTIMATED AT 13-14 PERCENT
COMPARED TO THE NOMINAL 16-17 PERCENT. NO ESTIMATE OF
THE 1977 TERMS OF TRADE TREND IS GIVEN, BUT BIRO NOTED THAT
BETWEEN 1974 AND 1977 THE AVERAGE PRICE LEVEL OF HUNGARY'S
CEMA EXPORTS INCREASED BY LESS THAN 20 PERCENT WHILE THE

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INFO OCT-01 ISO-00 EA-12 AID-05 CIAE-00 COME-00 EB-08

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IMPORT PRICE LEVEL ROSE SOME 38 PERCENT; HE HASTENED TO ADD THAT THIS DETERIORATION IS RELATIVELY FAVORABLE COMPARED TO WORLD PRICE TENDENCIES. 1978 PRICE NEGOTIATIONS WITH THE SOVIET UNION RESULTED IN AN APPROXIMATELY 3 PERCENT DETERIORATION IN TERMS OF TRADE; AGAIN BIRO ADDED THAT ALTHOUGH PETROLEUM PRICES HAVE BEEN RAISED SEVERAL TIMES, THEY REMAIN AT ONLY ABOUT FOUR FIFTHS OF THE WORLD PRICE. PRICE NEGOTIATIONS WITH OTHER CEMA COUNTRIES ""NOT YET COMPLETED IN THE CASE OF CZECHOSLOVAKIA AND BULGARIA--SHOULD RESULT IN LITTLE CHANGE IN HUNGARY'S TERMS OF TRADE.

5. IN DISCUSSING INTERNATIONAL CAUSES OF FOREIGN TRADE PROBLEMS,
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BIRO REITERATED THE STANDARD CALLS FOR IMPROVED QUALITY, PRODUCT MIX, MARKETING, AND SERVICE. HE SPECIFICALLY MENTIONED THAT "A DECLINE OF QUALITY HAS RECENTLY BEEN EXPERIENCED" IN A NUMBER OF PRODUCTS SPANNING METALLURGY, MACHINE INDUSTRY, HEAVY INDUSTRY, LIGHT INDUSTRY, AND AGRICULTURE. BIRO ALSO EMPHASIZED THE NEED "TO ESTABLISH THE ECONOMIC UNITY OF PRODUCTION AND FOREIGN TRADE" BY BETTER COORDINATION BETWEEN PRODUCING UNITS AND FOREIGN TRADE ORGANIZATIONS (FTO'S). INFORMATION FLOWS MUST BE IMPROVED IN BOTH DIRECTIONS, AND FINANCIAL RELATIONSHIPS MUST BE IMPROVED SO THAT PRODUCERS AND FTO'S HAVE THE SAME INTERESTS IN PRODUCING FOR FOREIGN TRADE. COMMENT: THE FTO-PRODUCER RELATIONSHIP IS CURRENTLY A MATTER OF SOME DEBATE, AS WAS BROUGHT OUT CLEARLY IN A FEBRUARY "ACTIVISTS MEETING" OF GOVERNMENT, BANKING, PRODUCER AND FTO REPRESENTATIVES HELD AT THE MINISTRY OF FOREIGN TRADE AND REPORTED MOST EXTENSIVELY IN THE FEBRUARY 22 AND 23 ISSUES OF VILAGGAZDASAG. AT THAT MEETING, BIRO PROMISED AN EXTENSIVE REVISION OF FTO INCOME REGULATIONS BY JANUARY 1, 1980, DESIGNED TO MAKE FTO SERVICES CHEAPER AND MORE EFFICIENT. COMMENTS BY PARTICIPANTS IMPLIED SOME DISAGREEMENT ON THE DESIRABILITY OF GIVING ADDITIONAL PRODUCER ENTERPRISES FOREIGN TRADING RIGHTS, AMONG OTHER ISSUES. THE PRODUCER POSITION VIS-A-VIS FTO'S HAS

RECENTLY BEEN STRENGTHENED SOMEWHAT BY THE ENTERPRISE LAW ENACTED IN DECEMBER AND BY A JANUARY 14 DECREE OF THE MINISTRY OF FOREIGN TRADE WHICH GIVES PRODUCERS A LIMITED RIGHT TO CHANGE THE FTO HANDLING THEIR PRODUCTS. END COMMENT.

6. BIRO DISCUSSED TRANSPORTATION DIFFICULTIES AT SOME LENGTH. WANT OF RAILWAY CAPACITY IN THE OTHER SOCIALIST COUNTRIES IS A MAJOR PROBLEM. THE CZECH RAILWAYS ARE MENTIONED AS PARTICULARLY BAD, WHILE SLOW RELOADING AT THE UNCLASSIFIED

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SOVIET BORDER, CAUSED PARTLY BY CONSTRUCTION AT CSAP (THE SOVIET BORDER STATION), CAUSED MAJOR SHIPPING AND PRODUCTION PROBLEMS. LACK OF FREIGHT CABS IN THE SOVIET UNION WAS ALSO A PROBLEM, CAUSING, FOR EXAMPLE, LATE DELIVERY OF 310 THOUSAND TONS OF LUMBER AND SAWN-GOODS. BIRO SPECIFIED THAT THE HUNGARIAN RAILWAYS (MAV) WERE NOT RESPONSIBLE FOR ANY MAJOR DELAYS, BUT WENT ON TO NOTE THAT MAV'S STOCK OF CARS WILL DECLINE THIS YEAR. NO RAPID IMPROVEMENT IS FORESEEABLE, AS SHORTAGES OF FREIGHT CARS WILL PERSIST IN THE USSR AND THE OTHER CEMA COUNTRIES. CEMA PORTS -- ESPECIALLY IN POLAND AND THE GDR -- REMAIN OVERCROWDED, FORCING HUNGARY TO USE YUGOSLAV AND CAPITALIST PORTS. OF TOTAL OVERSEAS SHIPMENT OF 2,426,000 TONS, 263,000 WENT BY CEMA PORTS, 1,107,000 BY YUGOSLAV PORTS, AND 556,000 BY CAPITALIST PORTS. PRIMARILY HAMBURG (COMMENT: BIRO'S COUNT LEAVES 500,000 TONS UNACCOUNTED FOR.). RIVER TRANSPORTATION IS NOT FULFILLING ITS POTENTIAL BECAUSE OF LACK OF FACILITIES AND UNATTRACTIVE PRICES. HUNGAROCAMION, THE HUNGARIAN TRUCKING AGENCY, IS GENERALLY SATISFACTORY BUT LACKS SPECIALIZED CARRIERS, SOMETIMES CANCELS SHIPMENTS, AND CHARGES HIGH TARIFFS, WHILE IT IS DIFFICULT FOR FTO'S TO GET PERMISSION TO USE FOREIGN CARRIERS IN EMERGENCES/6SIMILAR PROBLEMS EXIST WITH MALEV; BIRO CALLED FOR IMPROVED COOPERATION BETWEEN HIM MINISTRY AND THE MINISTRY OF TRANSPORTATION.

7. COMMENT: THIS SUMMARY HAS ONLY TOUCHED ON SELECTED AREAS OF BIRO'S REPORT (WHICH HAS BEEN POUCHED TO THE DEPARTMENT). HIS COMMENTS ON TRADE WITH CAPITALIST COUNTRIES FOLLOWED RECENT POLICY STATEMENTS: DESPITE LOW GROWTH AND PROTECTIONIST TENDENCIES IN THE WEST, TRADE EXPANSION IS VITAL TO CONTINUED ECONOMIC GROWTH AND HUNGARY MUST IMPROVE ITS EXPORT PERFORMANCE THROUGH BETTER MARKETING AND PRODUCTION STRUCTURE. ENTERPRISES ARE URGED TO PURCHASE GOODS FROM CEMA COUNTRIES WHENEVER POSSIBLE, BUT THERE IS NO INDICATION OF MORE COMPULSORY REGULATIONS UNCLASSIFIED

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IN THIS REGARD. IN GENERAL, THE GOH IS SATISFIED WITH
THE RUBLE-DENOMINATED TRADE BALANCE (A BIGGER DEFICIT
WOULD BE WELCOMED IF RUBLE IMPORTS REPLACED HARD CURRENCY
IMPORTS) AND WILL CONCENTRATE IN 1978 ON IMPROVING THE
HARD CURRENCY DEFICIT THROUGH INCREASED EXPORTS.
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